

**REPORT OF THE AUDIT OF THE
FORMER MERCER COUNTY
CLERK**

**For The Period July 1, 2003
Through November 4, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER MERCER COUNTY CLERK

For The Period July 1, 2003 Through November 4, 2003

The Auditor of Public Accounts has completed the former Mercer County Clerk's audit for the period July 1, 2003 through November 4, 2003. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees were \$46,635 for the period July 1, 2003 through November 4, 2003. Revenues were \$1,432,595 and disbursements were \$1,385,960.

Debt Obligations:

Lease principal agreements totaled \$14,326 as of November 4, 2003.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The former Clerk's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Trisler, Mercer County Judge/Executive
Honorable Bruce Harper, Former Mercer County Clerk
Honorable Ronnie Compton, Mercer County Clerk
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures and excess fees - regulatory basis of the former County Clerk of Mercer County, Kentucky, for the period July 1, 2003 through November 4, 2003. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures and excess fees of the former County Clerk for the period July 1, 2003 through November 4, 2003, in conformity with the regulatory basis of accounting, as described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2004, on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable John Trisler, Mercer County Judge/Executive
Honorable Bruce Harper, Former Mercer County Clerk
Honorable Ronnie Compton, Mercer County Clerk
Members of the Mercer County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Mercer County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 28, 2004

MERCER COUNTY
 BRUCE HARPER, FORMER COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period July 1, 2003 Through November 4, 2003

Receipts

Fiscal Court		\$	330
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	151,541	
Usage Tax		623,788	
Tangible Personal Property Tax		458,884	
Licenses-			
Marriage		2,312	
Deed Transfer Tax		28,340	
Delinquent Tax		90,532	1,355,397
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	6,294	
Real Estate Mortgages		23,231	
Chattel Mortgages and Financing Statements		20,890	
Powers of Attorney		920	
All Other Recordings		11,714	
Charges for Other Services-			
Candidate Filing Fees		140	
Copywork		13,305	76,494
Interest Earned			374
Total Receipts		\$	1,432,595

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 BRUCE HARPER, FORMER COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period July 1, 2003 Through November 4, 2003
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	106,665	
Usage Tax		612,098	
Tangible Personal Property Tax		165,582	

Licenses, Taxes, and Fees-

Delinquent Tax		13,099	
Legal Process Tax		7,465	
Candidate Filing Fees		60	
		<u>60</u>	\$ 904,969

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	29,717	
Delinquent Tax		9,069	
Deed Transfer Tax		<u>26,108</u>	64,894

Payments to Other Districts:

Tangible Personal Property Tax	\$	245,109	
Delinquent Tax		<u>43,100</u>	288,209

Payments to Sheriff

1,103

Payments to County Attorney

15,157

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$	63,664	
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Contracted Services-

Fish and Game		4,708	
Printing and Binding		5,342	
Advertising		3,102	

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

For The Period July 1, 2003 Through November 4, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15, each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003
- Reimbursement for 2003 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors and goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
For The Period July 1, 2003 Through November 4, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 for the audit period.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of November 4, 2003, the former County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former County Clerk's agent in the former County Clerk's name, or provided surety bond which named the former County Clerk as beneficiary/obligee on the bond.

MERCER COUNTY
 NOTES TO FINANCIAL STATEMENT
 For The Period July 1, 2003 Through November 4, 2003
 (Continued)

Note 4. Leases

The Clerk's office is committed to the following lease agreements as of November 4, 2003:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance November 4, 2003
Copier	\$ 271	60 Months	February 2004	\$ 813
Copier	\$ 68	60 Months	April 2005	\$ 1,020
Copier	\$ 68	60 Months	June 2005	\$ 1,360
Copier	\$ 76	60 Months	February 2004	\$ 228
Computer Equipment	\$ 727	60 Months	January 2005	\$ 10,905

Note 5. Software License Agreement

The office of the County Clerk is committed to a software license agreement with Software Management, Inc., for the period of January 25, 2000 through January 31, 2005. The agreement requires an annual payment of \$5,400 (\$450 per month). The total balance of the agreement was \$5,760 as of November 4, 2003.

COMMENT AND RECOMMENDATION

MERCER COUNTY
BRUCE HARPER, FORMER COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Period July 1, 2003 Through November 4, 2003

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Clerk's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Clerk should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Clerk should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Clerk could document this by initialing the quarterly financial report.
- The Clerk should periodically compare invoices to payments. The Clerk could document this by initialing the invoices.
- The Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Clerk could document this by initialing the bank reconciliation and the balance in the checkbook.

Former County Clerk Bruce Harper's Response: None

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This comment has not been corrected and is repeated above.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

The Honorable John Trisler, Mercer County Judge/Executive
The Honorable Bruce Harper, Former Mercer County Clerk
The Honorable Ronnie Compton, Mercer County Clerk
Members of the Mercer County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees – regulatory basis of the former Mercer County Clerk for the period July 1, 2003 through November 4, 2003, and have issued our report thereon dated April 28, 2004. This was a special report on the former County Clerk's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Mercer County Clerk's financial statement for the period July 1, 2003 through November 4, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Mercer County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, is considered to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 28, 2004

